Report to the Congressional

Defense Committees on the

Department of Defense's

FY 2010 In-sourcing Actions

September 2011

Prepared by the
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On behalf of the Secretary of Defense, this report transmits information related to the conversion of functions to performance by Department of Defense civilian employees (in-sourcing) made during fiscal year (FY) 2010.

This report fulfills the requirement for a report set forth by paragraph (c)(1) of section 323 of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, Public Law 111-383, January 7, 2011, which states:

> *"Not later than March 31, 2011, the Secretary of Defense shall submit to the congressional defense committees a report on the decisions with respect to the conversion of functions to performance by Department of Defense civilian employees made during fiscal year 2010. Such report shall identify, for each such decision—*
>
> *(A) the agency or service of the Department involved in the decision;*
> *(B) the basis and rationale for the decision; and*
> *(C) the number of contractor employees whose functions were converted to performance by Department of Defense civilian employees."*[1]

The Department's in-sourcing efforts support President Obama's March 2009 memorandum on government contracting which directed all federal agencies to reduce reliance on contractors; appropriately align inherently governmental activities to government performance; perform functions efficiently and effectively; and protect the public's interest while providing the best value for taxpayers. Since March 2009, President Obama has consistently stated that the government is too reliant on contracted services to perform work that is more appropriately aligned to government employees. In-sourcing is one tool the Department uses, consistent with statutory requirements in sections 2330a and 2463 of title 10, United States Code, and the President's direction, to help shape the workforce and ensure that work that should be performed by government employees is in fact done so.

The Department is conscious that well-reasoned and appropriate in-sourcing has had, and will continue to have, an impact on private sector firms, their employees, and local economies. Moreover, we cannot completely or accurately assess the specific impact in-sourcing has had on private sector firms or their employees without modifying contracts to require this reporting from individual firms. Additionally, a "one-for-one" assumption cannot be made; all in-sourcing actions do not necessarily establish a new government civilian position associated with work performed by a private sector employee, nor do all in-sourcing actions result in an adverse action for individuals hired by the private sector to perform those services. The Department greatly values the contributions made by private sector firms, particularly those of small businesses, and

[1] While section 323(c)(1)(C) asks for "*the number of contractor employees whose functions were converted to performance by Department of Defense civilian employees"*, at this time, the Department cannot report this data as it does not employ or hire individual contractor employees. Rather, the Department purchases services from the private sector, requiring the "what" and not the "how" of service delivery; the number of employees represent the "how" that is the prerogative of individual firms. The Department's in-sourcing actions are focused on services and not individual contractor positions or employees. Efforts to collect contractor full time equivalents (CFTE) in development of the Inventory of Contracts for Services required by section 2330a of title 10, United States Code, may, in the future help inform the number of CFTEs in-sourced.

recognizes that the private sector is, and will continue to be, a vital source of expertise, innovation, and support to the Department's Total Force.

The Department uses in-sourcing as one tool to:

- rebalance the workforce and reduce inappropriate reliance on contracted services;
- help shape the workforce by ensuring that work that is inherently governmental, closely associated with inherently governmental, or otherwise exempt from private sector performance (to mitigate risk, ensure continuity of operations, build internal capacity, meet/maintain readiness needs, etc.) is performed by government employees;
- ensure the Department has the necessary capabilities and skills to meet its missions; and
- generate efficiencies and savings.

Additionally, in a constrained fiscal environment, the Department's ability to convert contracted services to government performance to achieve cost efficiencies has resulted in the realignment of resources to higher priority areas. This ability is consistent with the Department's statutory obligations under section 129a of title 10, United States Code, which states the Department "shall use the least costly form of personnel consistent with military requirements and other needs of the Department".

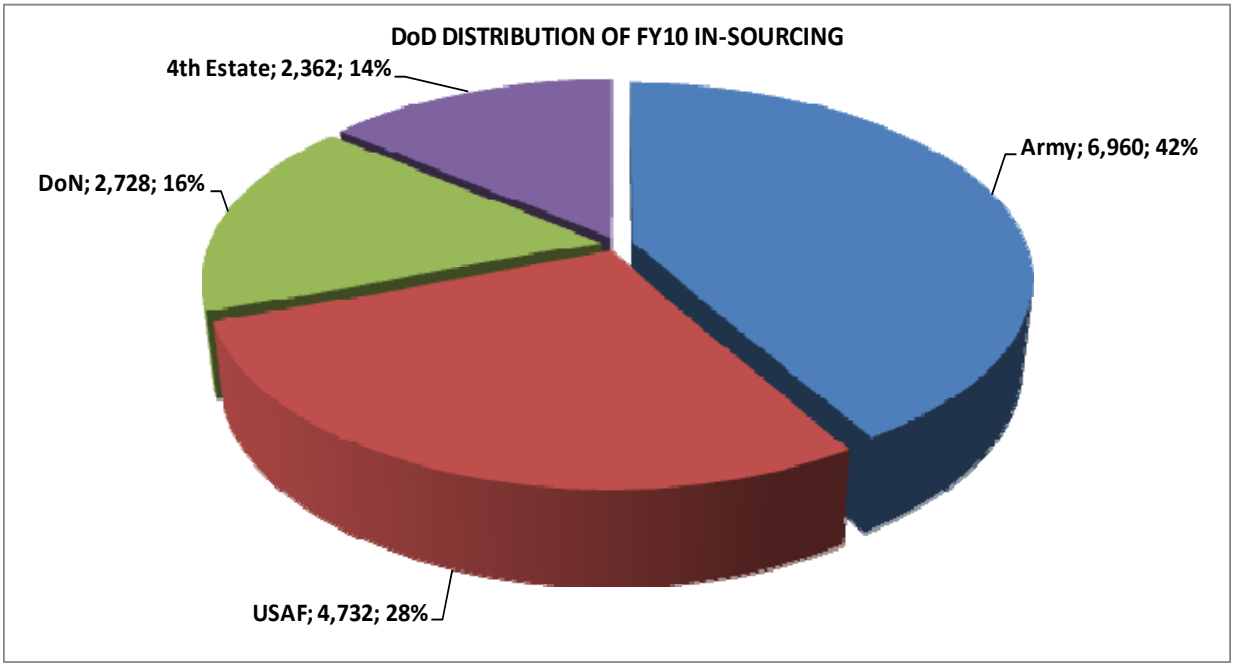
The Department of Defense remains committed to meeting statutory obligations under title 10 to annually review contracted services, and identify those that are more appropriately aligned to government performance. While some contracted services were or may be identified for in-sourcing, some services determined to be no longer required or of low priority may be eliminated or reduced in scope, while other required services will continue to be provided by the private sector.

To accomplish the above objectives, the Department conducts in-sourcing from a Total Force perspective, strategically assessing contracted services as part of a broader manpower and requirements determination and management process. In-sourcing is a collaborative effort across the Department's core lines of business, bringing together key stakeholders from the personnel, financial management and budget, acquisition, manpower, and related support communities.

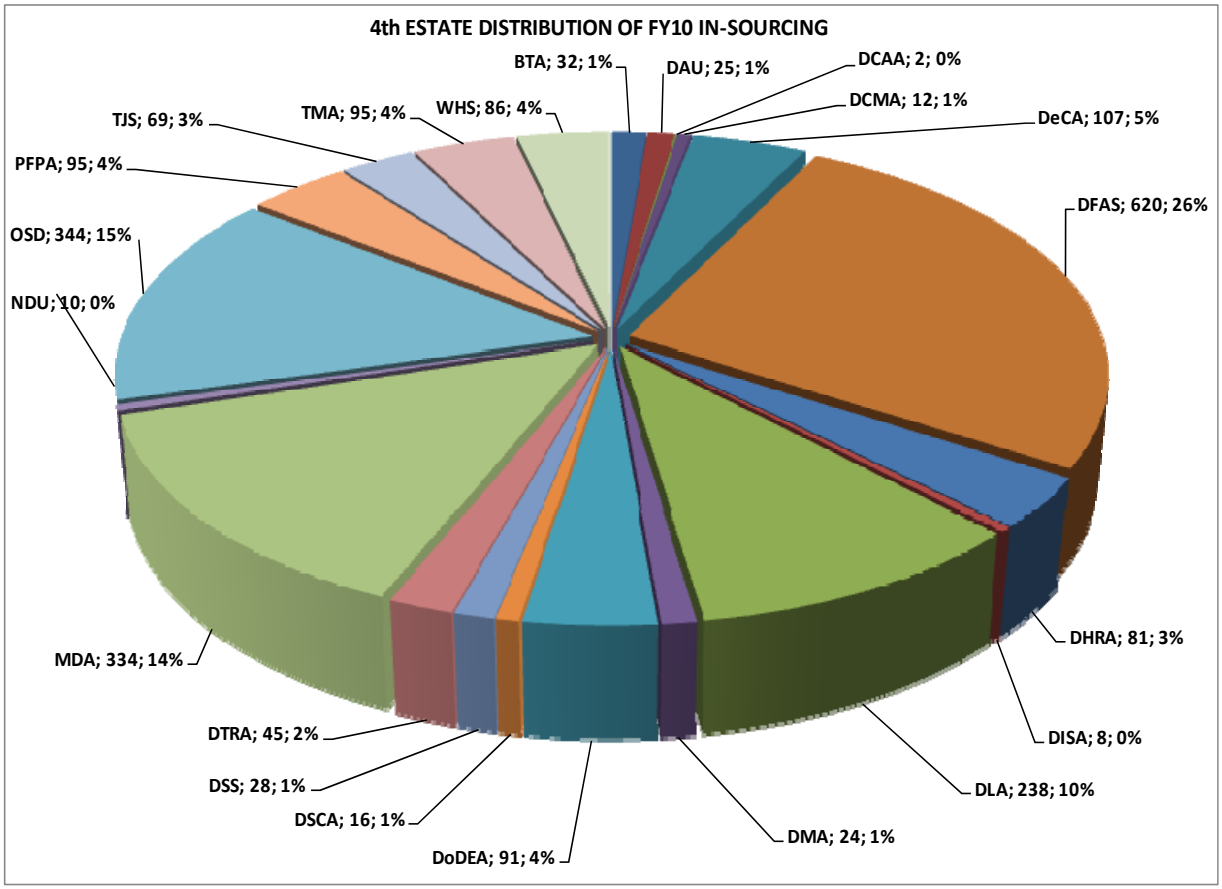
In fiscal year 2010, the Department established nearly 17,000 new government civilian positions to perform previously contracted services. The tables accompanying this report provide (by individual Component, e.g., Military Department, Defense Agency, or Field Activity of the Department of Defense) a summary of FY 2010 in-sourcing actions. Tables include:

- if applicable, sub-organization, directorate, or command;
- the aggregate number of new civilian positions established as a result of in-sourcing contracted services;
- the justification for the in-sourcing action (e.g., inherently governmental, exempt from private sector performance, or cost based); and
- the DoD function code and description associated with the in-sourced service

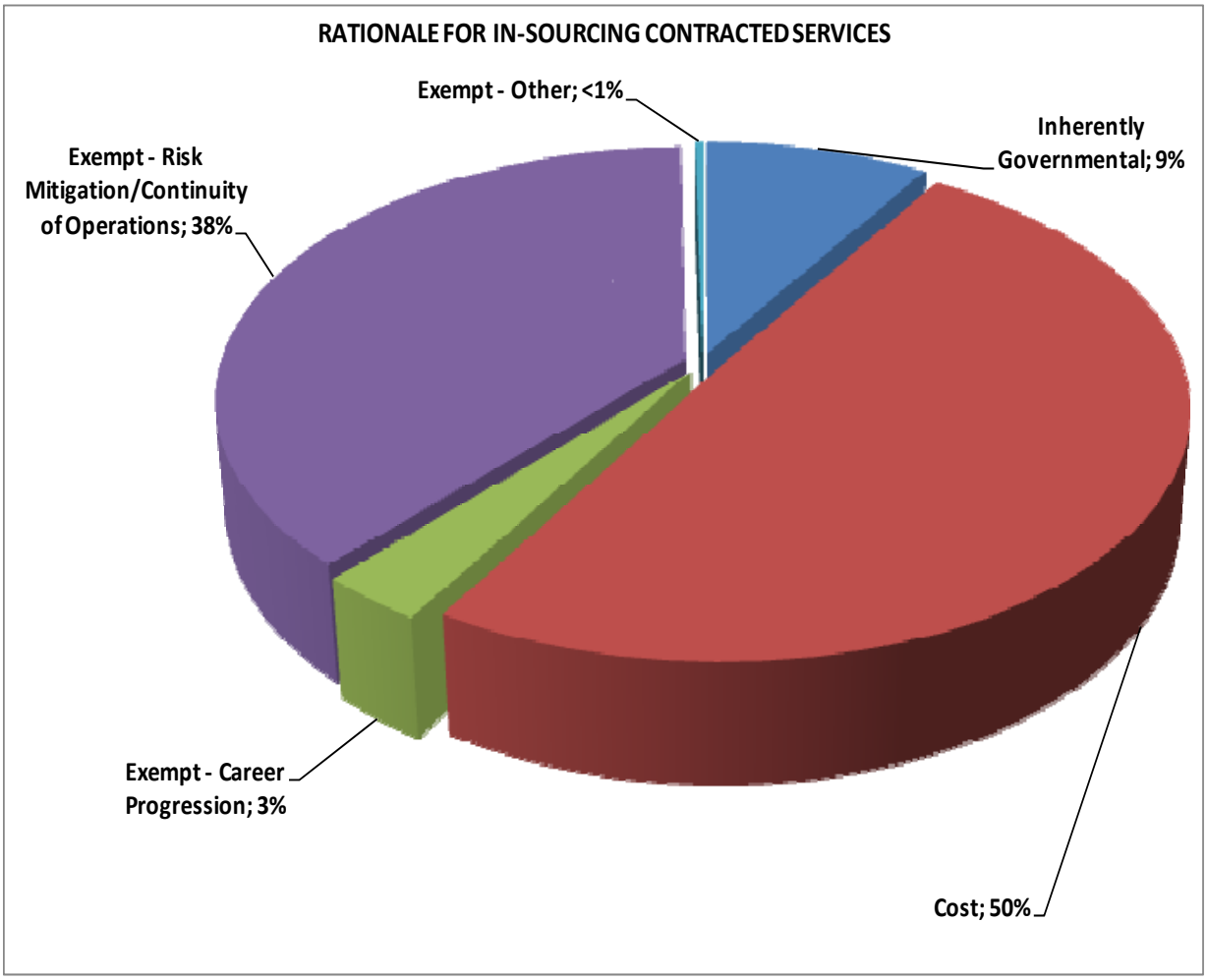
The following chart shows the distribution of FY10 in-sourcing actions by military department and the Defense Agencies and Field Activities (collectively, and commonly, referred to as the "4th Estate").



Within the "4th Estate", distribution of FY10 in-sourcing actions is illustrated below:



The following chart depicts the rationale for in-sourcing contracted services across the Department in FY10. Exemptions from private sector performance are made in accordance with policies delineated in DoD Instruction 1100.22 *"Policy and Procedures for Determining Workforce Mix"* and include those services that support the readiness or workforce management needs of the Department (e.g., to provide sufficient positions for overseas and sea-to-shore rotation; career progression; continuity of operations; risk mitigation; as required by law, Executive Order, treaty; oversight and control of functions that are closely associated with inherently governmental and/or essential functions). Contracted services in-sourced for cost reasons have been determined to be commercial in nature and more cost effectively delivered by civilian personnel of the Department, in accordance with requirements of DTM-09-007 *"Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support."*



All authorizations, including those established as a result of in-sourcing, in the Department of Defense are coded with a DoD function code to indicate the type of work performed. These function codes are gathered into two principal categories: "Infrastructure" and "Forces and Direct Support." Functions in both principal categories can, and are, performed by a mix of military personnel, government civilians, and contracted support.

The "Infrastructure" category includes 13 functional groups, as follows:

- Group 1 – Force Management and General Support
- Group 2 – Communications, Computing, and Other Information Services
- Group 3 – Science and Technology (S&T) and Research and Development (R&D) Management and Support
- Group 4 – Systems Acquisition, Test and Evaluation, Engineering, and Contracting
- Group 5 – Logistics
- Group 6 – Products Manufactured or Fabricated
- Group 7 – Installation/Facility Management, Force Protection, and Utility Plant Operation and Maintenance
- Group 8 – Environmental Security & Natural Resource Services
- Group 9 – Real Property Project Management, Maintenance and Construction
- Group 10 – Civil Works
- Group 11 – Personnel and Social Services
- Group 12 – Education and Training
- Group 13 – Health Services

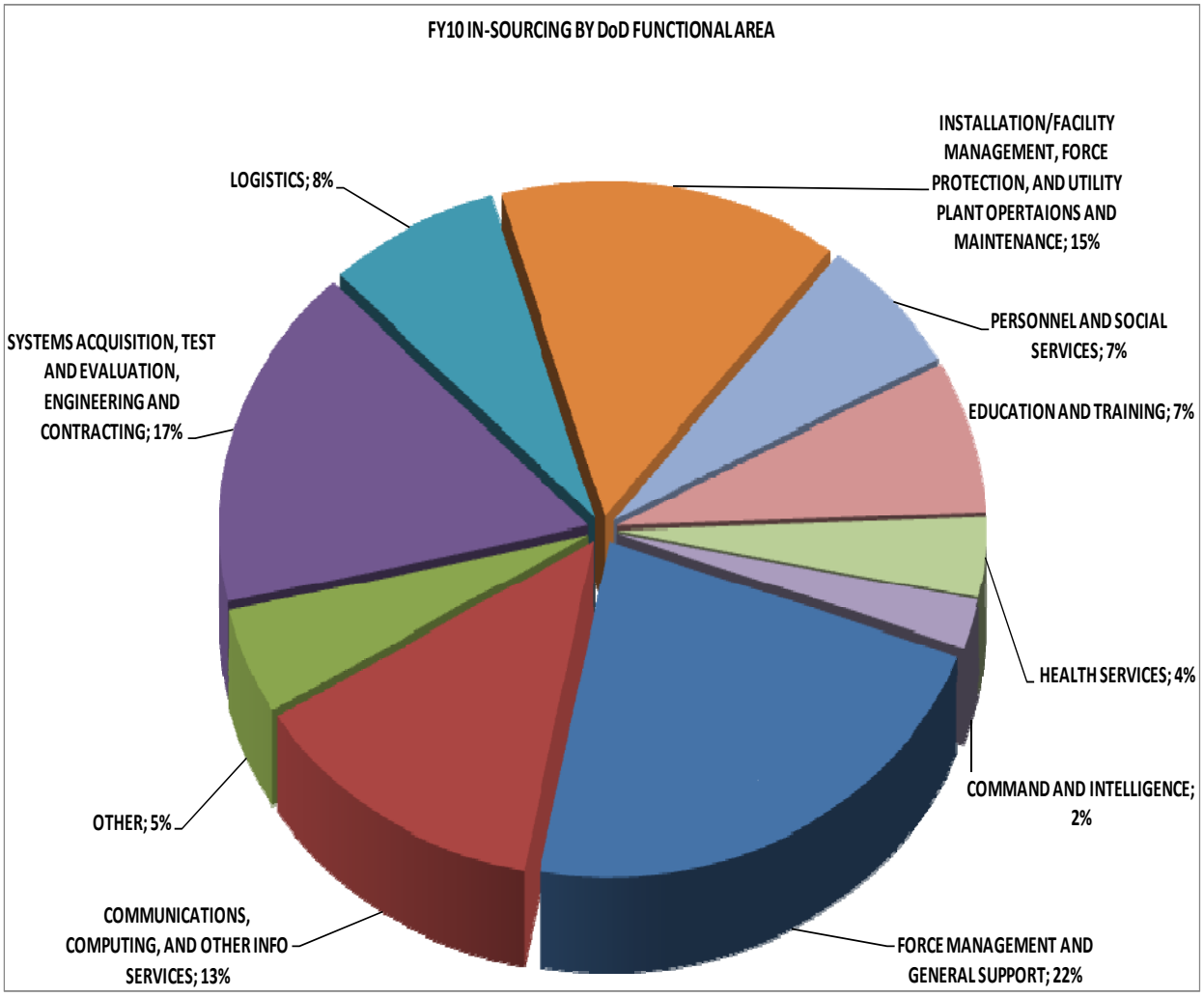
Within the "Forces and Direct Support" category includes five functional groups, as follows:

- Group 14 – Command and Intelligence
- Group 15 – Expeditionary Force Defense-Operating Forces
- Group 16 – Homeland Defense-Operating Forces
- Group 17 – Space Defense-Operating Forces
- Group 18 – Cyberspace Operations-Operating Forces

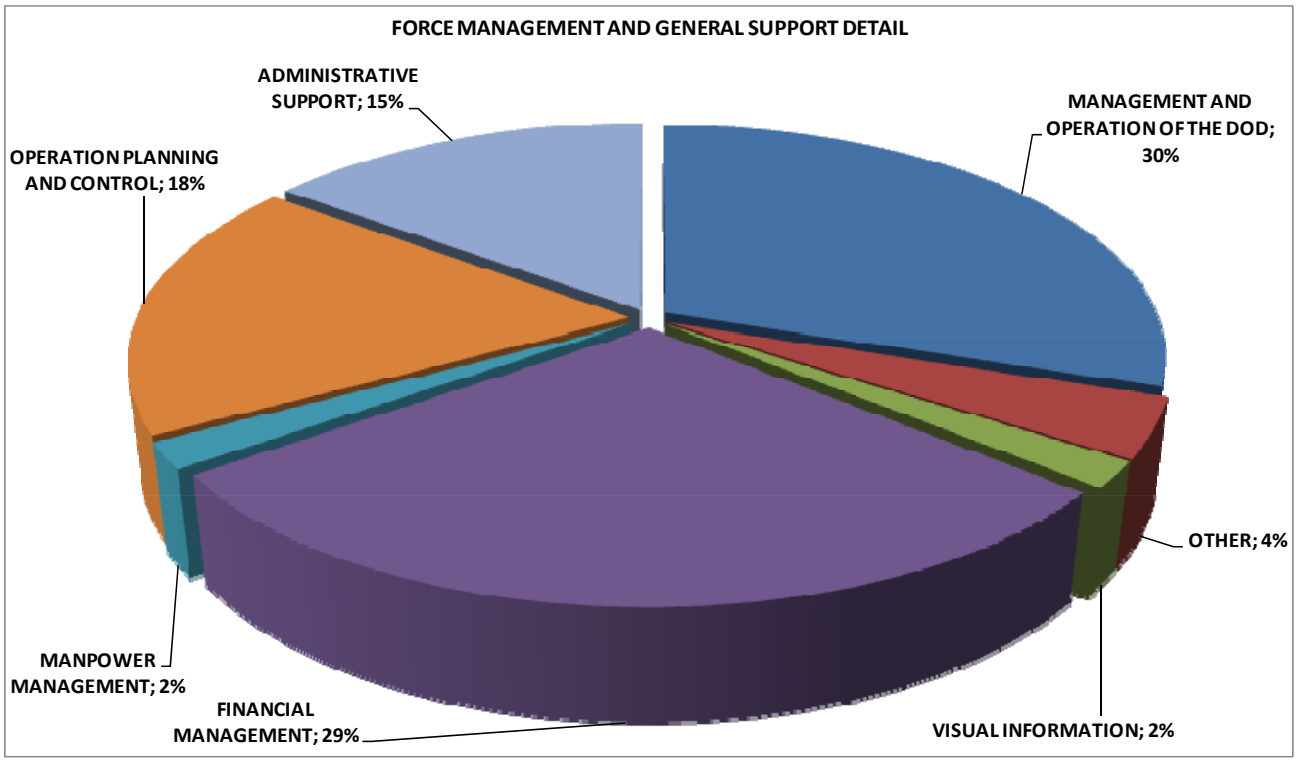
With each of the 18 functional groups there are either multiple sub-groups, functions, or both. Each function includes an alphanumeric code, title, and definition describing the type of work performed. The tables in Appendix A provide position-by-position functional descriptions for the nearly 17,000 new civilian positions established in FY 2010 as a result of in-sourcing. Appendix B includes the current functional definitions/descriptions associated with each DoD functional code.

The charts on the following pages provide a graphical depiction of overall DoD FY10 in-sourcing by functional area and summarize, in the aggregate, the information within Appendix A.

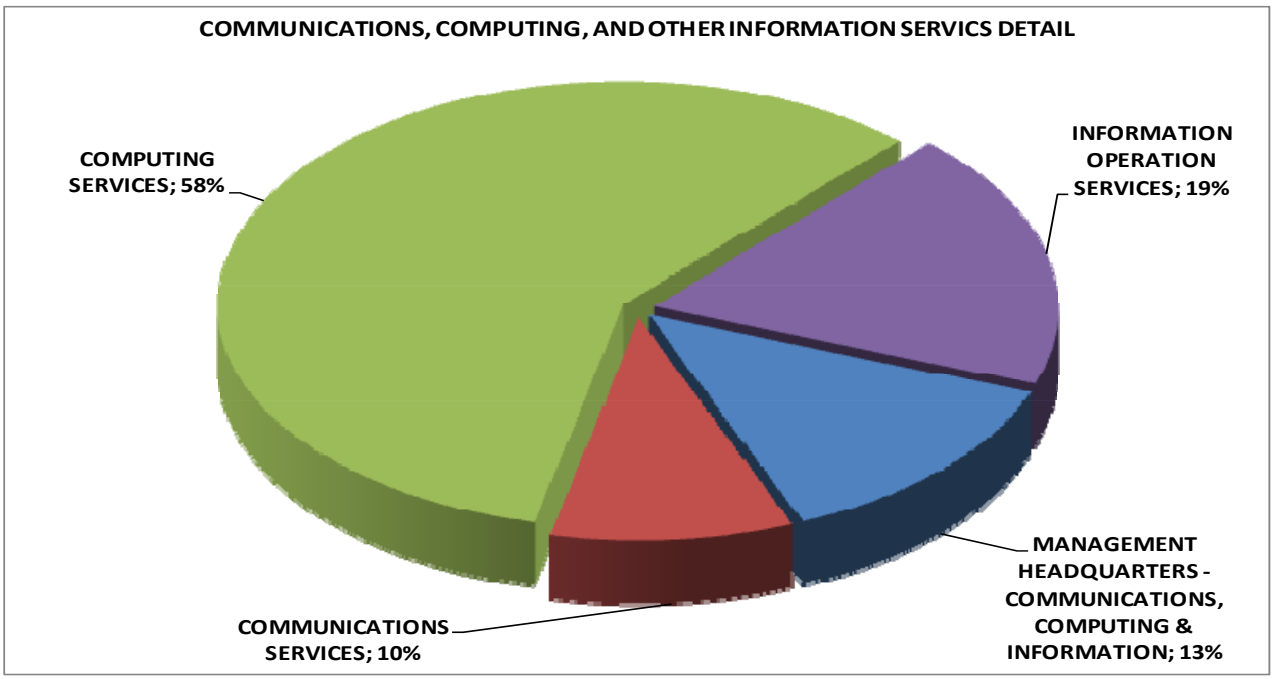
This first chart breaks down FY 2010 in-sourcing into the primary functional groups. Included in "other" are *science and technology (S&T) and research and development (R&D) management and support*; *products manufactured or fabricated*; *environmental security & natural resource services*; *real property project management, maintenance, and construction*; *civil works*; *expeditionary force defense*; *homeland defense*; *space defense*; *and cyberspace operations*.



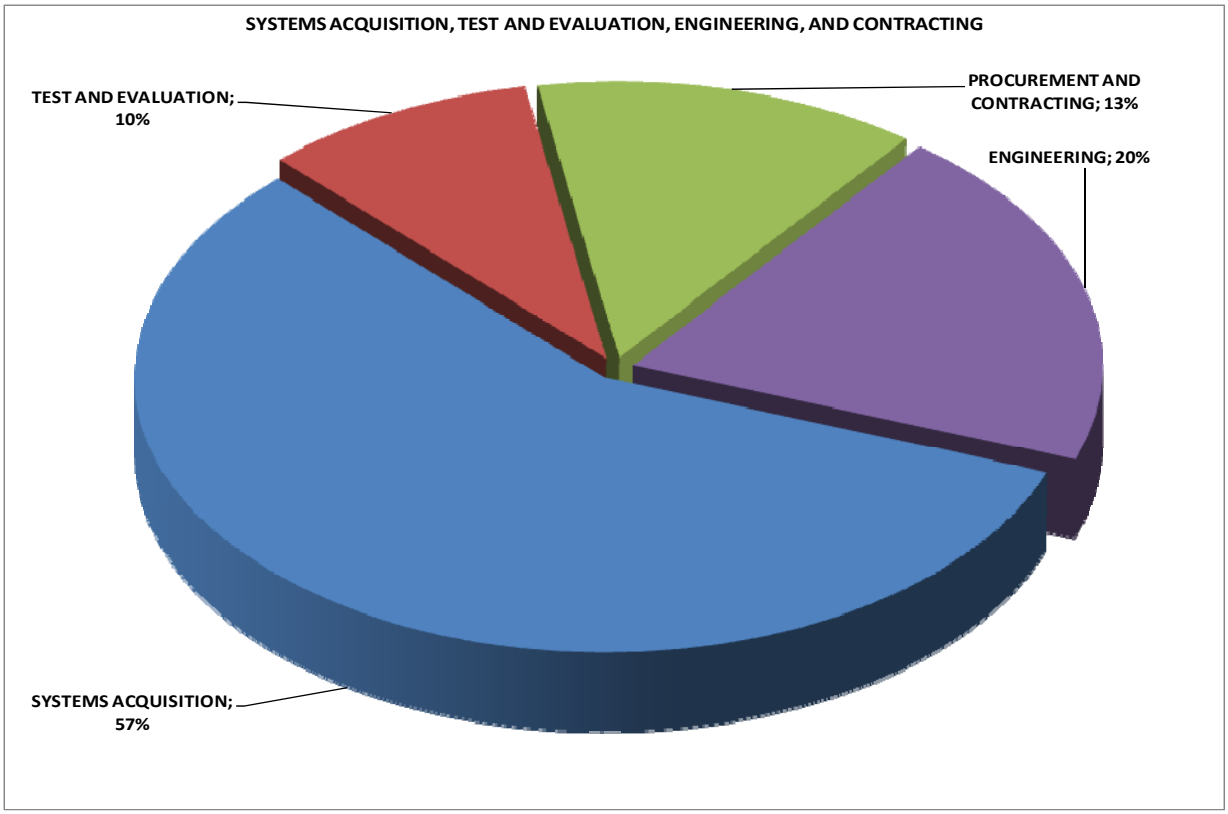
The chart below provides a more detailed look at the 22% of positions established to perform functions in *group 1*, *force management and general support*. Included in "other" are *audits and investigations*; *support external to DoD*; *legal services*; *public affairs*; *protocol operations*; *legislative affairs*; and *historical affairs*.



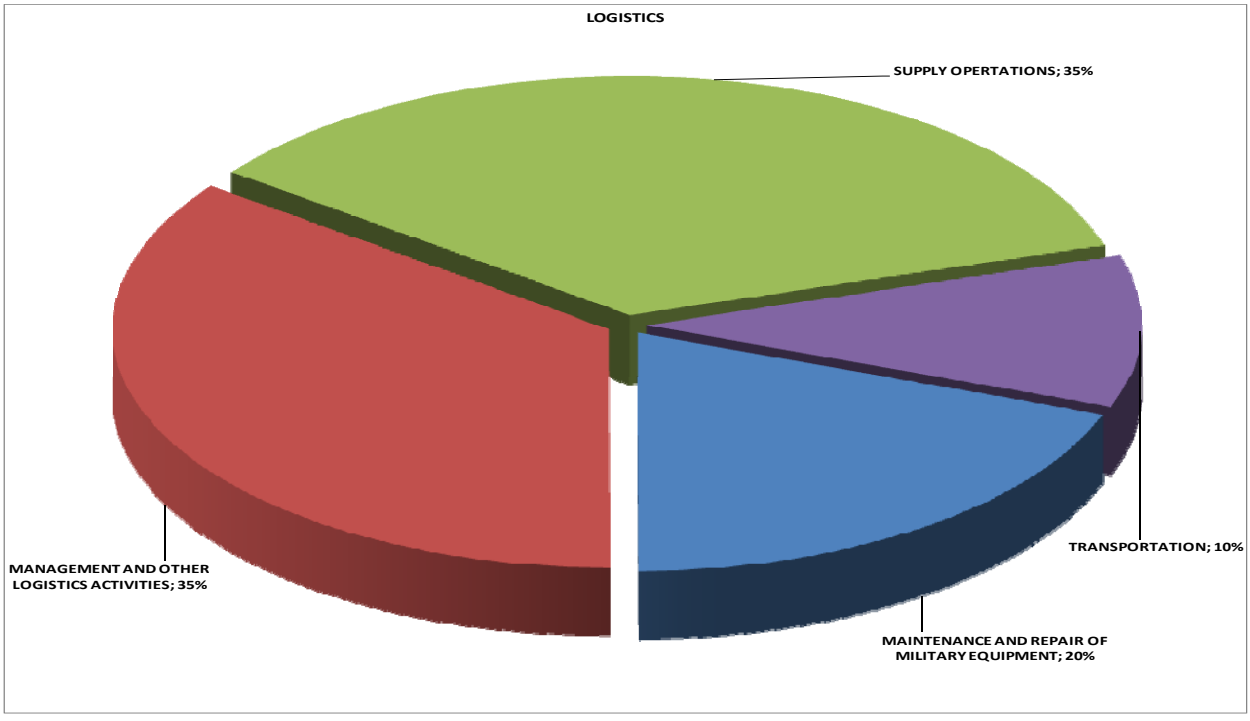
The chart below provides a more detailed look at the 13% of positions established to perform functions in *group 2*, *communications, computing, and other information services.*



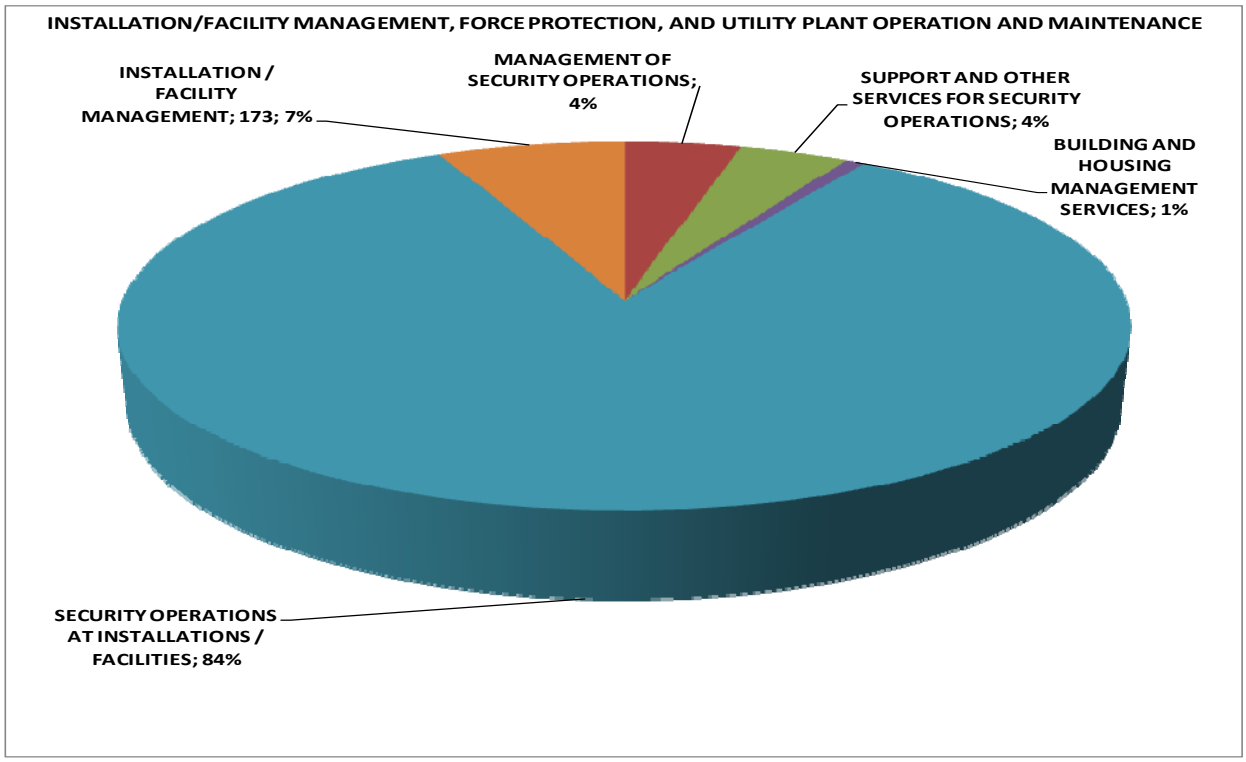
The chart below provides a more detailed look at the 17% of positions established to perform functions in *group 4, systems acquisition, test and evaluation, engineering, and contracting.*



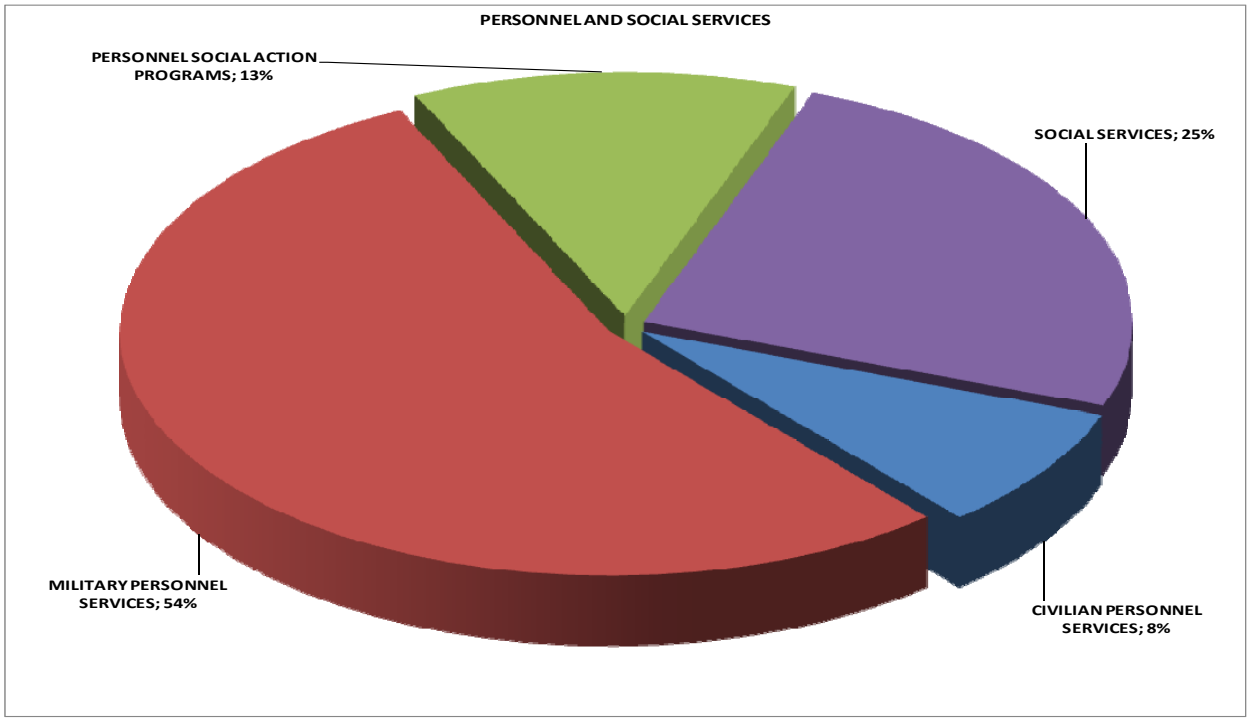
The chart below provides a more detailed look at the 8% of positions established to perform functions in *group 5, logistics.*



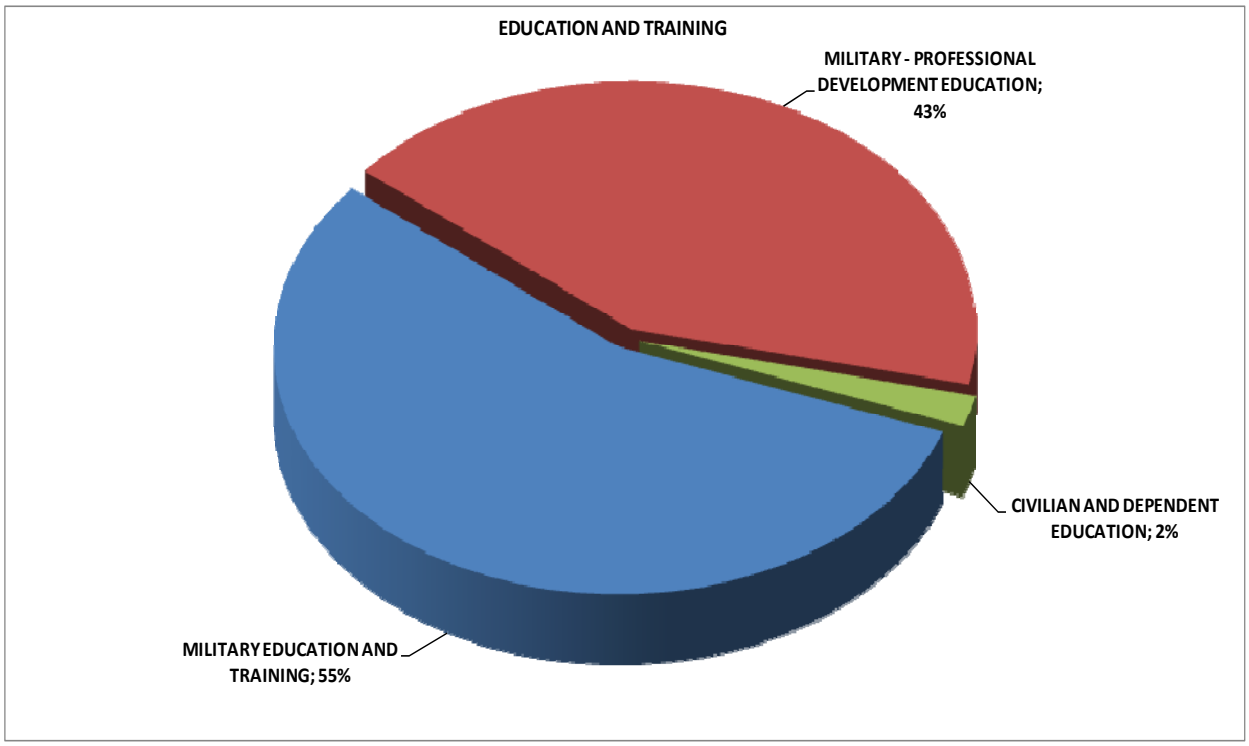
The chart below provides a more detailed look at the 15% of positions established to perform functions in *group 7, installation/facility management, force protection, and utility plant operation and maintenance.*



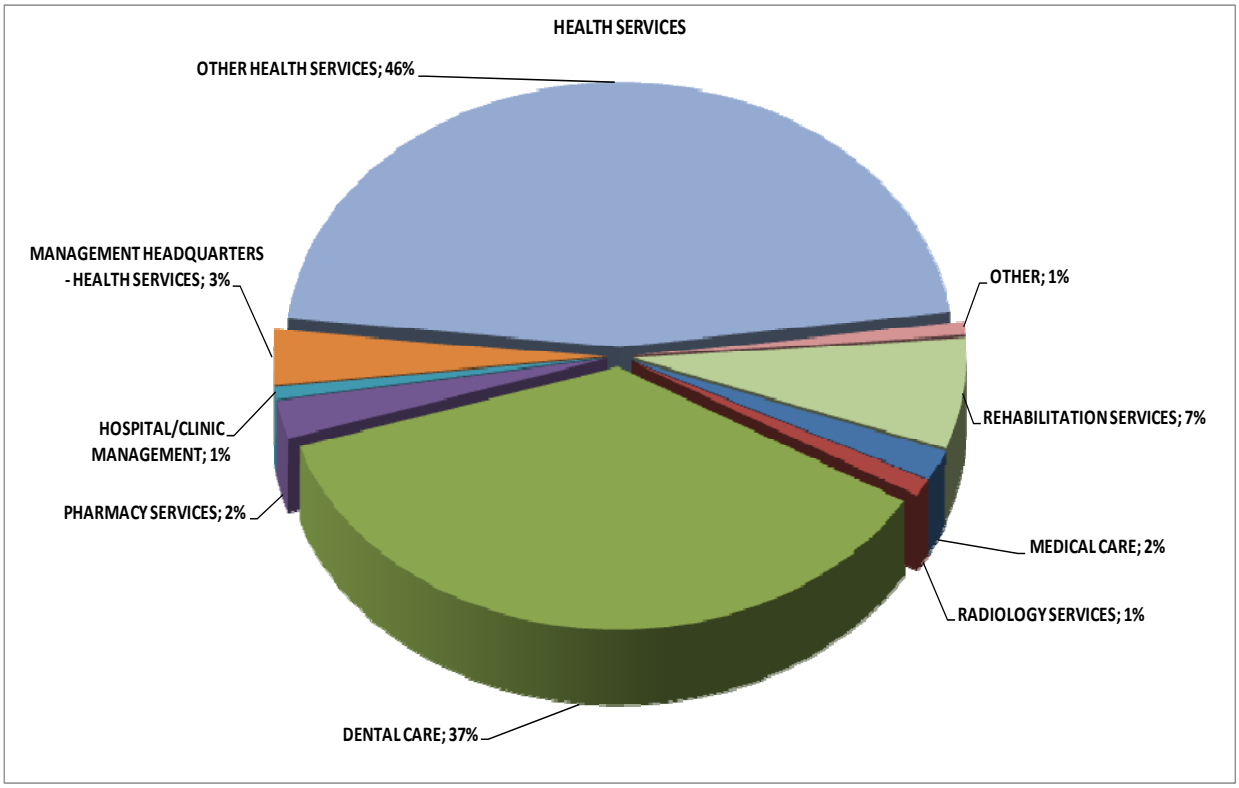
The chart below provides a more detailed look at the 7% of positions established to perform functions in *group 11, personnel and social services.*



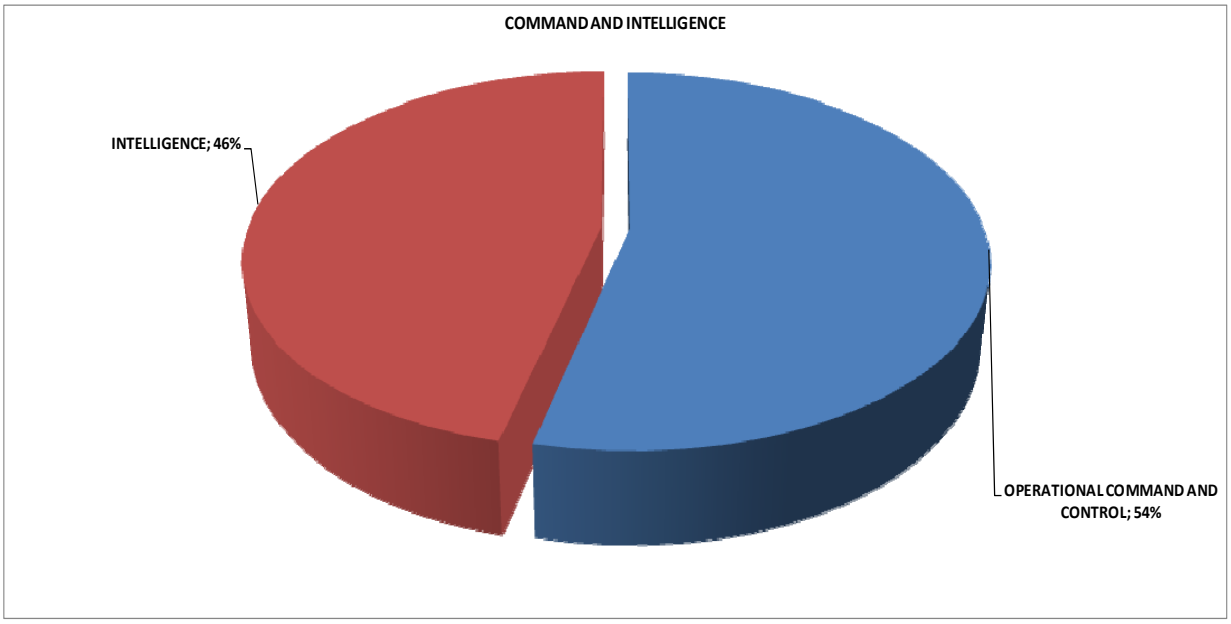
The chart below provides a more detailed look at the 7% of positions established to perform functions in *group 12, education and training*.



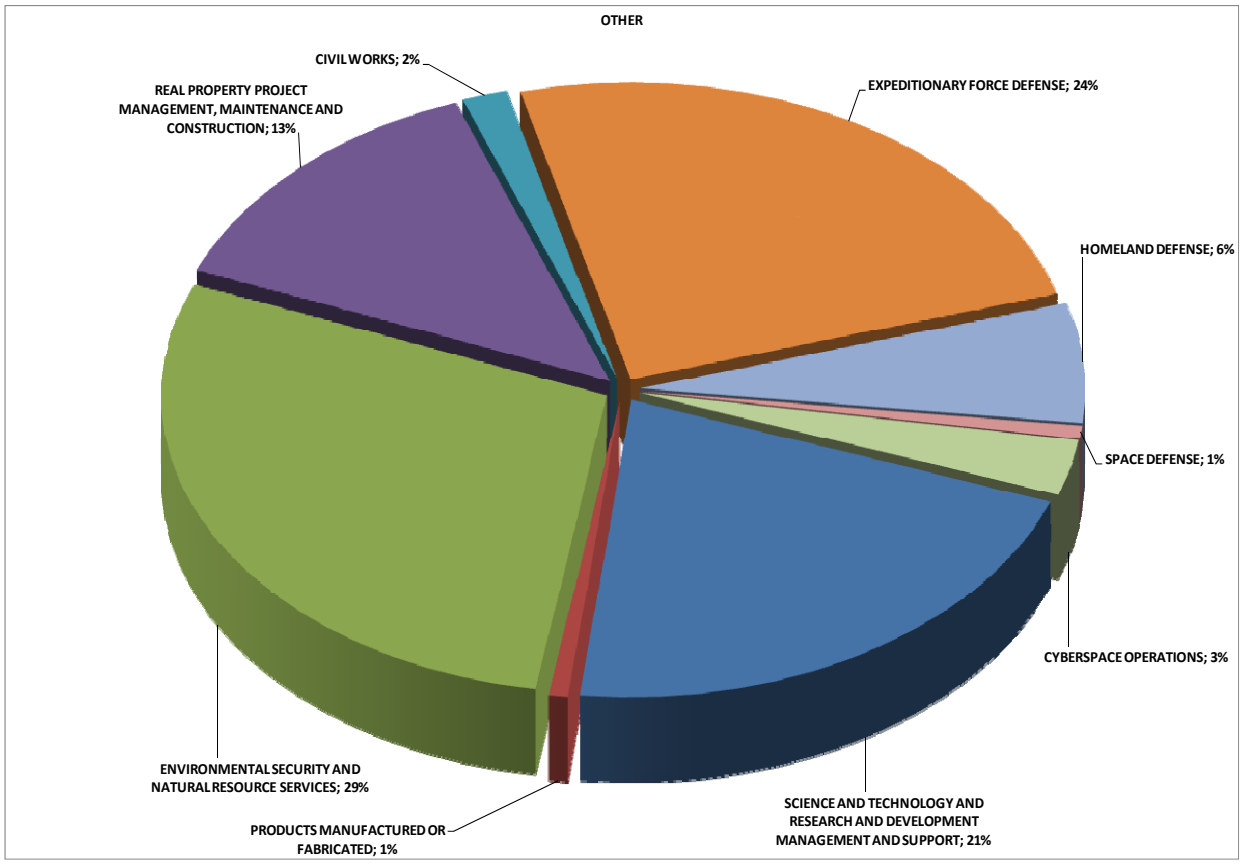
The chart below provides a more detailed look at the 4% of positions established to perform functions in *group 13, health services*. Included in "other" are *preventive medicine*; *ambulatory care services*; *medical and dental devices development*; and *hospital supplies and equipment*.



The chart below provides a more detailed look at the 2% of positions established to perform functions in *group 14, command and intelligence*.



The chart below provides a more detailed look at the remaining 5% of overall positions established that where characterized as "other" because each functional grouping accounting for less than 2% of the nearly 17,000 overall positions.



In-sourcing has been a very effective tool to rebalance the workforce, realign inherently governmental and other critical work to government performance, and in many instances, to generate resource efficiencies for higher priority goals. The Department remains committed improving its accounting of contracted services as part of the Total Force in order to meet its statutory obligations to annually review its contracted services, identifying those that are more appropriately performed by government employees and should be in-sourced.

In the coming years, those contracted services that meet the necessary criteria (consistent with governing statutes, policies, and regulations) will be in-sourced, by:

- absorbing work into existing government positions by refining duties or requirements;
- establishing new positions to perform contracted services by eliminating or shifting equivalent existing manpower resources (personnel) from lower priority activities; or
- on a case-by-case basis, requesting an exception to the civilian targets the Secretary has asked the Department to adhere to; exceptions will be subject to appropriate senior level review and the process for doing so is still being refined, and will be integrated with program build/review processes.